

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2019-7-G

IN RE: Application of Piedmont Natural Gas Company,)	
Incorporated to Have the Terms of the Natural)	
Gas Rate Stabilization Act Apply to the)	SETTLEMENT
Company's Rates and Charges for Gas)	AGREEMENT
Distribution Services)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491 and 2005-567, dated September 28, 2005 and October 13, 2005, respectively, the Commission established a baseline for Piedmont under the Natural Gas Rate Stabilization Act (the "RSA") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to Sections 58-5-430 and 58-5-440 of the RSA, Piedmont filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 14, 2019 for the review period consisting of April 1, 2018 through March 31, 2019 ("Review Period");

WHEREAS, the Report of ORS's examination of Piedmont's Monitoring Report for the Twelve-Month Period Ended March 31, 2019 pursuant to the RSA, was filed with the Commission on August 30, 2019;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and,

WHEREAS, following those discussions, the Parties have each determined that their interests, and the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of November 2019 calculated on the basis of a 9.9% Return on Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Settlement Schedule I (Net Operating Income and Rate of Return); Settlement Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Settlement Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that Piedmont will adopt the accounting adjustments of ORS as set forth in Settlement Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by Piedmont, a Debt/Equity Ratio of 44.65/55.35, and the agreement of Piedmont to implement rates based on a 9.9% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$6,102,317. This equates to a reduction of \$6,845,620 for South Carolina ratepayers when compared to rates calculated at the authorized 12.6% ROE.

5. The Parties agree to an increase in demand costs of \$4,024,949, due to a demand cost under-recovery.

6. The Parties agree that Piedmont will file a general rate case proceeding with the Commission no later than April 1, 2022.

7. The Parties agree that the ORS shall be provided the following information by the Company on a going forward basis:

- a. Concurrent with the Company's future RSA report filings for the period ended March 31 of each year, Piedmont shall report to the ORS the employees whose incentive pay has been capitalized and included in rate base and the amount thereof.
- b. Concurrent with the Company's future RSA report filings for the period ended March 31 of each year, Piedmont shall report to ORS all the per books non-allowable expenses for the annual review period.
- c. By November 30 and May 31 of each year, Piedmont shall provide the ORS with general ledger expense detail for the respective six-month prior periods ending September 30 and March 31 for RSA non-allowable expense testing purposes.
- d. The Company will work in good faith with ORS to improve the transparency and reporting of costs allocated to the Company from DEBS, or other subsidiaries of Duke Energy in order to facilitate the ORS's ability to efficiently audit such cost allocations in the future.

8. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable, and full resolution of the above-captioned proceeding. The Parties agree to use

reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

9. The Parties agree that signing this Settlement Agreement (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future or collateral proceedings; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery, or rates of return that any Party may seek or advocate in any future proceeding. The Parties agree that this Settlement Agreement is in public interest when considered as a whole. If the Commission declines to approve this Settlement Agreement in its entirety, then any Party may withdraw from the Settlement Agreement without penalty or obligation.

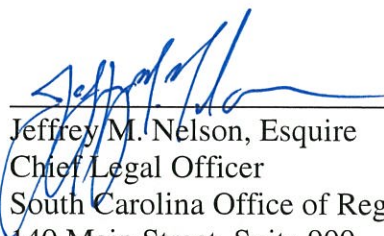
10. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

11. This Settlement Agreement shall be interpreted according to South Carolina law.

12. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

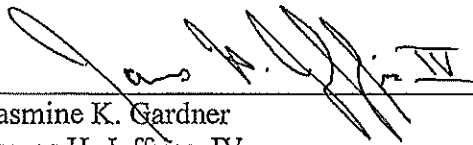
[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing the South Carolina Office of Regulatory Staff



Jeffrey M. Nelson, Esquire
Chief Legal Officer
South Carolina Office of Regulatory Staff
140 Main Street, Suite 900
Columbia, South Carolina 29201
Tel.: (803) 737-0823
Fax: (803) 737-0895
Email: jnelson@ors.sc.gov

Representing Piedmont Natural Gas Company, Inc.

A handwritten signature in black ink, appearing to read "James H. Jeffries, IV", is written over a horizontal line.

Jasmine K. Gardner
James H. Jeffries, IV
McGuire Woods, LLP
201 North Tryon Street, Suite 3000
Charlotte, North Carolina 28202
Tel.: (704) 343-2348
Fax: (704) 444-8793
Email: JJeffries@mcguirewoods.com

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve-Month Period Ended March 31, 2019
Docket No. 2019-7-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) As Adjusted ORS	(4) Adjustments for Proposed Margin Increase	(5) Adjustments for Demand Cost Under(Over) Recovery	(6) Total After Proposed Rates
Operating Revenues						
1 Sale and Transportation of Gas	\$ 153,587,996	\$ (6,969,147)	\$ 146,618,849	\$ 6,102,317	(11) \$ 4,024,949	(17) \$ 156,746,115
2 Other Operating Revenues	682,230	0	682,230	0	0	682,230
3 Total Operating Revenues	154,270,226	(6,969,147)	147,301,079	6,102,317	4,024,949	157,428,345
Operating Expenses						
4 Cost of Gas	71,141,986	(5,751,500)	65,390,486	0	3,992,375	(18) 69,382,861
5 Operations and Maintenance	31,564,464	(734,294)	30,830,170	15,212	10,034	(19) 30,855,416
6 Depreciation	14,289,194	2,604,053	16,893,247	0	0	16,893,247
7 General Taxes	10,106,200	(2,173,631)	7,932,569	34,174	22,540	(20) 7,989,283
8 State Income Taxes	(757,855)	1,713,817	955,962	302,647	0	1,258,609
9 Federal Income Taxes	3,674,028	(797,497)	2,876,531	1,207,559	0	4,084,090
10 Amortization of Investment Tax Credits	(13,176)	0	(13,176)	0	0	(13,176)
11 Total Operating Expenses	130,004,841	(5,139,052)	124,865,789	1,559,592	4,024,949	130,450,330
12 Net Operating Income	24,265,385	(1,830,095)	22,435,290	4,542,725	0	26,978,015
13 Interest on Customers' Deposits	(83,601)	0	(83,601)	0	0	(83,601)
14 Amortization of Debt Redemption Premium	0	0	0	0	0	0
15 Allowance for Funds Used During Construction	590,178	0	590,178	0	0	590,178
16 Customer Growth	177,137	(13,359)	163,778	33,162	(16)	196,940
17 Net Operating Income for Return	\$ 24,949,099	\$ (1,843,454)	\$ 23,105,645	\$ 4,575,887	\$ 0	\$ 27,681,532
Rate Base:						
18 Plant in Service	\$ 662,331,272	0	\$ 662,331,272			\$ 662,331,272
19 Accumulated Depreciation	(243,204,108)	0	(243,204,108)			(243,204,108)
20 Net Plant in Service	419,127,164	0	419,127,164			419,127,164
Add:						
21 Construction Work in Progress	34,643,898	0	34,643,898			34,643,898
22 Materials and Supplies	6,861,533	0	6,861,533			6,861,533
23 Cash Working Capital	(847,675)	(91,787)	(939,462)			(939,462)
Deduct:						
24 Customers' Advances	0	0	0			0
25 Customers' Deposits	2,796,421	0	2,796,421			2,796,421
26 Accumulated Deferred Income Taxes	91,042,968	0	91,042,968			91,042,968
27 Unclaimed Funds	144,338	0	144,338			144,338
28 Total Rate Base:	\$ 365,801,193	\$ (91,787)	\$ 365,709,406			\$ 365,709,406
29 Rate of Return	6.82%		6.32%			7.57%
30 Return on Common Equity	8.55%		7.64%			9.90%

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2019
Docket No. 2019-7-G

Line No.	Description	Per Piedmont	Per ORS
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust revenues to the going-level basis.	\$ (6,969,147)	\$ (6,969,147)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ (6,969,147)</u>	<u>\$ (6,969,147)</u>
2	<u>Cost of Gas</u>		
	To adjust cost of gas to the going-level basis.	\$ (5,751,500)	\$ (5,751,500)
	<u>Total Cost of Gas</u>	<u>\$ (5,751,500)</u>	<u>\$ (5,751,500)</u>
3	<u>Operations and Maintenance Expenses</u>		
a.	To adjust payroll expense to the going-level basis.	\$ 217,883	\$ 217,883
b.	To adjust pension and OPEB expenses to the going-level basis.	(212,260)	(212,260)
c.	To adjust employee retirement and welfare benefit expenses to the going-level basis.	285,241	285,241
d.	To decrease expenses for the provision for uncollectible accounts to reflect actual net write-offs over a three-year period.	(311,237)	(311,237)
e.	To adjust expenses for allocations to non-utility activities.	(7,145)	(10,705)
f.	To adjust LTI - equity incentives expenses to the going-level basis	98,814	0
g.	To adjust STI - short term incentives expenses to the going-level basis.	282,531	0
h.	To adjust lease expenses to the going-level basis.	(80,604)	(80,604)
i.	To adjust expenses for the South Carolina assessment fee.	12,162	87,870
j.	To adjust expenses for non-allowables for ratemaking purposes.	(579,214)	(630,046)
k.	To adjust expenses for Gas Technology Institute (GTI) expense.	0	0
l.	To adjust expenses for amortization of deferred SC environmental expense.	114,564	114,564
m.	To adjust the Company's LTI & STI to remove amounts associated with stock performance and remove 50% of the Company's four highest compensated executives' base pay and benefits.	<u>0</u>	<u>(195,000)</u>
	<u>Total Operations and Maintenance Expense</u>	<u>\$ (179,265)</u>	<u>\$ (734,294)</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2019
Docket No. 2019-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
4	<u>Depreciation Expense</u>		
	To adjust depreciation expense to the going-level basis using the most current depreciation study rates.	\$ 2,604,053	\$ 2,604,053
	<u>Total Depreciation Expense</u>	<u>\$ 2,604,053</u>	<u>\$ 2,604,053</u>
5	<u>General Taxes</u>		
a.	To adjust property taxes to the going-level basis.	\$ (2,306,307)	\$ (2,306,307)
b.	To adjust franchise taxes to the going-level basis.	\$ 155,035	\$ 155,035
c.	To adjust payroll tax expense to the going-level basis.	\$ 45,302	\$ 16,668
d.	To adjust the utility license fee (rate of .3%) to the going-level basis.	\$ (20,907)	\$ (20,907)
e.	To adjust the gross receipts tax (rate of .260010%) to the going level basis.	\$ (14,448)	\$ (18,120)
	<u>Total General Taxes</u>	<u>\$ (2,141,325)</u>	<u>\$ (2,173,631)</u>
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income for accounting and pro forma adjustments.	\$ 1,664,264	\$ 1,713,817
	<u>Total State Income Taxes</u>	<u>\$ 1,664,264</u>	<u>\$ 1,713,817</u>
7	<u>Federal Income Taxes</u>		
a.	To adjust federal income taxes (rate of 21%) to reflect the impact on income for accounting and pro forma adjustments.	(995,215)	\$ 140,262
b.	To decrease expenses for the 2017 tax reform EDIT giveback to customers.	\$	\$ (937,759)
	<u>Total Federal Income Taxes</u>	<u>\$ (995,215)</u>	<u>\$ (797,497)</u>
8	<u>Amortization of Debt Redemption Premium</u>		
	To adjust net operating income for amortization of debt redemption premium.	\$ 0	\$ 0
	<u>Total Amortization of Debt Redemption Premium</u>	<u>\$ 0</u>	<u>\$ 0</u>
9	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of .73%) following the adjustments to operating revenues and expenses.	\$ (15,842)	\$ (13,359)
	<u>Total Customer Growth</u>	<u>\$ (15,842)</u>	<u>\$ (13,359)</u>

Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2019
Docket No. 2019-7-G

Line <u>No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
--------------------	--------------------	-------------------------	--------------------

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2019
Docket No. 2019-7-G

Line No.	Description	Per Piedmont	Per ORS
10	<u>Cash Working Capital</u>		
	To adjust cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%).	\$ (22,408)	\$ (91,787)
	<u>Total Cash Working Capital</u>	<u>\$ (22,408)</u>	<u>\$ (91,787)</u>
11	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust revenues from the sale and transportation of gas for the proposed margin increase.	\$ 12,941,237	\$ 6,102,317
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 12,941,237</u>	<u>\$ 6,102,317</u>
12	<u>Operations and Maintenance Expenses</u>		
	To adjust the provision for uncollectible accounts (.24929%) following the adjustment to operating revenues.	\$ 32,261	\$ 15,212
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 32,261</u>	<u>\$ 15,212</u>
13	<u>General Taxes</u>		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .260010%) following the adjustment to operating revenues.	\$ 65,651	\$ 34,174
	<u>Total General Taxes</u>	<u>\$ 65,651</u>	<u>\$ 34,174</u>
14	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the adjustments to operating revenues and expenses.	\$ 642,166	\$ 302,647
	<u>Total State Income Taxes</u>	<u>\$ 642,166</u>	<u>\$ 302,647</u>
15	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 21%) to reflect the impact on income from the adjustments to operating revenues, expenses and state income taxes.	\$ 2,562,243	\$ 1,207,559
	<u>Total Federal Income Taxes</u>	<u>\$ 2,562,243</u>	<u>\$ 1,207,559</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Twelve-Month Period Ended March 31, 2019
Docket No. 2019-7-G

Line No.	Description	Per Piedmont	Per ORS
16	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of .73%) following the adjustments to operating revenues and expenses.	\$ 70,364	\$ 33,162
	<u>Total Customer Growth</u>	<u>\$ 70,364</u>	<u>\$ 33,162</u>
17	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust the revenue requirement for the sale and transportation of gas associated with demand cost recovery.	\$ 4,022,811	\$ 4,024,949
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 4,022,811</u>	<u>\$ 4,024,949</u>
18	<u>Cost of Gas</u>		
	To adjust cost of gas for the demand cost recovery.	\$ 3,992,375	\$ 3,992,375
	<u>Total Cost of Gas</u>	<u>\$ 3,992,375</u>	<u>\$ 3,992,375</u>
19	<u>Operations and Maintenance Expenses</u>		
	To adjust the provision for uncollectible accounts (rate of .24929%) following the adjustment to operating revenues.	\$ 10,028	\$ 10,034
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 10,028</u>	<u>\$ 10,034</u>
20	<u>General Taxes</u>		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .260010%) for the adjustment to revenue for demand cost recovery.	\$ 20,408	\$ 22,540
	<u>Total General Taxes</u>	<u>\$ 20,408</u>	<u>\$ 22,540</u>

Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
For the Twelve-Month Period Ended March 31, 2019
Docket No. 2019-7-G

Schedule 3

Description	Capital Structure	Regulatory Per Books				ORS As Adjusted				After Proposed Rates			
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	1,783,266,802	44.65%	163,330,233	4.68%	2.09%	7,643,855	163,289,250	4.68%	2.09%	7,641,937	163,289,250	4.68%	2.09%
Common Equity	2,210,314,602	55.35%	202,470,960	8.55%	4.73%	17,305,244	202,420,156	7.64%	4.23%	15,463,708	202,420,156	9.90%	5.48%
Total	3,993,581,404	100.00%	365,801,193		6.82%	24,949,099	365,709,406		6.32%	23,105,645	365,709,406		7.57%